Georgia Department of Audits and Accounts
Performance Audit Operations

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Why we did this review

The purpose of this performance audit was to review the current status of loss control efforts being developed by the Risk Management Services (RMS) Division of the Department of Administrative Services. New management at RMS reported that increased loss control efforts are currently under development. In order to improve Georgia's chances for success in reducing losses from insurance claims, we evaluated current and planned RMS loss control efforts to identify potential barriers to success.

Who we are

The Performance Audit Operations Division was established in 1971 to conduct in-depth reviews of state programs. The purpose of these reviews is to determine if programs are meeting their goals and objectives; provide measurements of program results and effectiveness; identify other means of meeting goals; evaluate the efficiency of resource allocation; and assess compliance with laws and regulations.

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Loss Control Efforts Related to State Insurance Claims

Significant savings are possible if the state establishes an effective program to reduce the cost of insurance claims.

What we found

Georgia spends approximately $100 million each year paying insurance claims for losses involving state agencies and their employees. We found that states achieve significant savings when aggressive systems for monitoring and preventing losses are established. Currently, Georgia has no comprehensive system to reduce insurance losses and their resultant cost to taxpayers.

The Risk Management Services (RMS) Division of the Department of Administrative Services (DOAS) is responsible for managing the state's insurance coverage for property, liability, workers' compensation, and indemnification. DOAS estimates that the state avoids $75 million in insurance premiums each year by self-insuring for this coverage. However, self-insurance necessitates loss control programs. DOAS and RMS management have acknowledged the importance of loss control, but their efforts have been hampered by a lack of state-level support for these efforts. The recommendations in this report reflect the steps that can be taken to increase attention to these costs and to develop a means to reduce them over time.

To implement an effective loss control program, the General Assembly should consider taking steps to give RMS the authority to manage the state's loss control efforts and should start holding agencies accountable for the cost and frequency of their insurance claims. In addition, RMS should develop a comprehensive approach for implementing loss control efforts and improve its process for billing insurance premiums.

In its written response to this report DOAS indicated that, in general, it agreed with every recommendation. They noted some minor areas of disagreement and plans for corrective action, which have been included in this report.

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Audit Purpose

The purpose of this audit was to review the current status of loss control efforts that are being developed by the Risk Management Services (RMS) Division of the Department of Administrative Services (DOAS). Previous reviews of RMS (including a 1988 performance audit and a 2000 review by the KPMG consulting firm) generally recommended that it take a more proactive stance in preventing and reducing losses from insurance claims. Management at RMS report that loss control efforts are currently under development. This audit evaluated current and planned RMS loss control efforts in order to identify potential barriers to the state's success in reducing losses.

Risk Management and Loss Control in State Government

State government operations provide a broad range of services, exposing them to the risk of financial loss. Losses such as employee injuries, damage to state or private property, and injuries to the public can result from state activities. To combat exposure to these losses, states establish self-insurance funds and/or purchase traditional insurance products.

As a means of reducing their insurance claims costs, states typically operate *risk management* programs that develop strategies and procedures to help agencies control their costs and manage risks. These loss control strategies are intended to reduce the likelihood of an incident (loss *prevention*), or to reduce the cost of a claim after an incident occurs (loss *reduction*). For example, a state may require that all covered employees complete defensive driving courses to reduce the likelihood of accidents, or a state may require the installation of sprinkler systems in state buildings to reduce the extent of damage when a fire occurs. This report will use the term "loss control" to describe both types of strategies.

Risk Management in Georgia

In Georgia, RMS is responsible for managing the state's insurance coverage. In 1960 DOAS was authorized to create a Property Insurance Fund to protect the state's physical property. Since then, the General Assembly has established additional funds to protect against other types of losses. Based on information from its insurance brokers, RMS estimates that Georgia avoids approximately $75 million[1] in commercial insurance costs each year by self-insuring for workers' compensation, liability, and property claims.

Coverage currently provided by RMS includes: liability insurance against lawsuits by third parties (including medical malpractice and automobile liability), property insurance for physical damage to state property, workers' compensation insurance to cover state employees who suffer job-related injuries, and indemnification coverage for certain state employees disabled or killed in the line of duty. The Division is also responsible for collecting unemployment insurance premiums for state agencies and for coordinating the payment of these benefits with the Georgia Department of

[1] This figure represents savings of approximately $35 million for Workers' Compensation, $35 million for Liability, and $5 million for Property self-insurance Funds.

Labor. **Exhibit 1** shows the number of claims filed and the claims expenses in fiscal year 2005 for each of the five Fund types. (Fiscal year 2005 is the most recent detailed claims data available from RMS). RMS administrative expenses were $9.9 million in fiscal year 2005 and $11.3 million in fiscal year 2006. Risk management services are provided by 39 state employees and 63 contract workers.

Exhibit 1
Risk Management Services
Fiscal Year 2005 Claims Activity

Fund	Objective	Product	Claims Filed[1]	Claims Expense[2]
Liability	Provides funding for third-party liability exposures	Tort Claims	1,908	$ 24,574,101
		General Liability	61	3,541,969
		Auto Liability	1,262	8,220,889
		Crime Insurance	6	1,836,403
Property	Provides funding for state property losses	Buildings and Contents	271	3,069,101
		All Risks	60	111,998
		Auto Physical Damage	298	586,000
Workers' Compensation	Provides benefits to injured state government employees	Injury Compensation	9,843	57,032,227
Indemnification[3]	Provides additional benefits to certain employees engaged in dangerous activities (state and local law enforcement, firefighters, EMTs, and prison guards, as well as school and highway employees)	Death or Disability	9	595,969
		Supplemental Pay (temporary disability)	11	7,726
		Public School Death or Disability	0	0
Unemployment Compensation[3]	Provides benefits for state job separations that result in unemployment claims	Claims Admin. For Dept. of Labor	4,395	8,512,494
TOTAL			**18,124**	**$108,088,877**

[1] Includes claims filed in FY05 resulting from incidents that occurred in previous years.
[2] Includes payments on claims filed in previous years.
[3] Because indemnification benefits are awarded by an independent committee, and unemployment claims are managed on behalf of DOL, this report emphasizes liability, property, and workers' compensation claims.

Source: DOAS *Risk Management Overview*, April 2006

Insurance Premiums/Rates

DOAS contracts with an actuarial firm on an annual basis to analyze Georgia's insurance claims history and to provide recommendations on the amount of funds the state should reserve to cover incurred but unpaid claims for its Liability, Workers' Compensation, and Unemployment Funds. (Actuarial recommendations for reserve fund levels for the Property and Indemnification Funds are not provided because long-term predictions of losses are not required for these products.) Based on this advice, DOAS estimates the amount needed each year to fund its insurance claims and expenses. If approved during the budget process, these costs are allocated to each state agency by formulas that vary by coverage type. Liability and workers' compensation charges to agencies are based on a formula that reflects an agency's loss exposure and its loss experience. In this formula, an agency's loss *exposure* is typically based on its number of full-time employees; an agency's loss *experience* is typically based on the cumulative cost of its claims for the preceding five years. Property insurance charges to agencies are based on loss exposure only. The Indemnity Funds do not charge premiums to agencies and are primarily replenished through direct appropriations (except for the Public School Death or Disability product which is funded by sales of educator car tags). Funding for unemployment insurance is based on Department of Labor recommendations.

Risk Fund Reserve Balances

The amounts needed in insurance reserve funds are considered to be financial liabilities since they reflect anticipated expenditures for insurance claims. As shown in **Exhibit 2**, the state's insurance funds had a cumulative shortage (as of June 30, 2006) of approximately $82 million as a result of a deficiency in the Workers' Compensation Fund of almost $137 million. Due to reduced state revenues in recent years, the entire amount needed for anticipated workers' compensation costs was not charged to agencies; reserve funds were used to pay a large portion of claims. It should be noted that staff at the Governor's Office of Planning and Budget have indicated that funding will be adequate, at minimum, to cover anticipated costs for fiscal year 2008 and subsequent years; any receipts and interest not used to pay claims (including funds saved through loss control efforts) will go toward rebuilding the reserve.

Exhibit 2
Risk Management Fund Balances
As of June 30, 2006

Fund		Assets	Liabilities	Net Assets (Shortage)
Liability		$171,905,000	$146,365,000[1]	**$25,540,000**
Property		29,587,000	7,936,000	**21,651,000**
Workers' Compensation		78,625,000	215,461,000[1]	**(136,836,000)[3]**
Indemnification	**Indemnification**	881,000	849,000	**32,000**
	Supplemental Pay	4,759,000	0	**4,759,000**
	Teacher Indemnification	1,557,000	0	**1,557,000**
Unemployment Compensation		4,410,000	3,328,000[2]	**1,082,000**
TOTAL		$291,724,000	$373,615,000	**($82,215,000)**

[1] Includes actuarial estimates of reserves needed for the Fund.
[2] Includes the Department of Labor's estimate of reserves needed for the Fund.
[3] The FY2006 CAFR reflects a $0 balance due to an adjusting entry using state funds to offset the shortage; however, this adjustment does not indicate an actual transfer of funds to DOAS.

Source: State of Georgia *Comprehensive Annual Financial Report* (CAFR) for FY 2006

Recent Loss Control Efforts

There has been increased interest in state loss control efforts in fiscal year 2007. For example, a task force for the **Commission for A New Georgia** produced a report in January 2007 that noted that "significant opportunities exist" for RMS to direct and coordinate the state's loss control efforts. In addition, staff at the Governor's Office of Planning and Budget (OPB) noted plans to work with DOAS on improving agency accountability for insurance costs during the next budget cycle. While it seems to be universally recognized that the state needs to implement more loss control efforts, a comprehensive plan has not yet been developed. However, RMS did note the following loss control efforts that have recently been implemented:

- **Risk Management Symposium**- a two-day educational opportunity presented to over 200 state employees in October 2006. Topics included loss control, insurance premiums, and issues in workers' compensation, property, and liability insurance.

- **Risk Management Advisory Council**- a committee of representatives from 12 state agencies who, since March 2006, meet with DOAS/RMS on a quarterly basis to provide guidance and input as insurance customers. The members include staff from the Board of Regents, Department of Corrections, Department of Human Resources, Department of Juvenile Justice, Department of Labor, Department of Transportation, Georgia Institute of Technology, Georgia Ports Authority, Georgia State Financing and Investment Commission, Georgia World Congress Center, Medical College of Georgia, and the University of Georgia.

- **Driver Awareness**- a series of presentations given to the Community Service Boards throughout the state starting in July 2006. Emphasis is on reducing the number of motor vehicle accidents involving collisions with fixed objects.

- **Property Inspection**- a program of loss control inspections of state-owned facilities to identify hazardous conditions, ensure protective measures are in place, and assess a property's overall exposure to potential damages. The inspections are being performed on a three-year cycle that started at the end of fiscal year 2006.

- **Video Library** – a catalog of safety training videos provided by the Division's third party administrator for workers' compensation as of February 2007. Offerings include an 8-minute back injury prevention video and a 17-minute video on driver safety. The tapes are available at all state agencies.

RMS staff is also planning to sponsor four full-day safety training sessions in May 2007 which will be presented in various locations around the state. In addition to these recent efforts, the Division developed a Return-to-Work program in 1998 to help workers be productive during a workplace illness or injury.

Audit Scope and Methodology

This audit was conducted in accordance with generally accepted government auditing standards for performance audits. In conducting this project, the audit team researched applicable laws and regulations and interviewed key personnel in the Risk Management Services Division and in other units within the Department of Administrative Services. The evaluation methodology included reviews of Division files and records. The team also requested input from the Office of Planning and Budget regarding the process for calculating and funding the premiums paid by each state agency. In addition, we spoke with representatives from the Commission for a New Georgia to discuss the results of their analysis of risk management in the state. The team also reviewed web sites and publications of other states' risk management and loss control programs to seek examples of successful loss control tools and techniques. We sought performance benchmarks and industry standards for risk management to compare Georgia's performance with that of programs in other states.

This report has been discussed with appropriate personnel representing the Department of Administrative Services. A draft copy was provided for their review and they were invited to provide a written response, including any areas in which they plan to take corrective action. Pertinent responses from the Department have been included in this report as appropriate.

Findings and Recommendations

Significant savings are possible if the state establishes an effective loss control program to reduce insurance claims.

Georgia state government does not have a comprehensive system for controlling losses from insurance claims. In fiscal years 2005 and 2006, the state averaged payments of $96 million per year for workers' compensation, liability and property claims[2] . Even a slight reduction in claims payments could result in substantial savings; a 5% reduction in losses, for example, would result in savings of almost $5 million each year.

While we cannot predict a specific level of savings that that would result from implementation of an effective loss control program, other states have documented significant benefits resulting from similar efforts. For example, Texas reduced its workers' compensation costs by more than 17% ($11 million) over two years by changing the way agencies pay for premiums. (Georgia's total workers' compensation costs increased 9%- approximately $5 million- in the same period.) Oregon, which developed an extensive driver safety program over several years, demonstrated a 17% decrease in the rate of vehicle incidents, a 64% decrease in both auto property and vehicle-related workers' compensations costs, as well as a 29% decrease in auto liability costs in a two-year period (fiscal years 2004-2005). Similarly, some Florida agencies were able to reduce the overall number of workers' compensation claims when new loss control efforts were initiated. For example, by instituting a safety program with a single full-time employee, one Florida agency reduced its annual number of claims from 727 to 290 in two calendar years (60%), saving the state $1.7 million.

Comparative workers' compensation data also indicate that cost savings are achievable. Georgia's workers' compensation cost per state employee was $514 in fiscal year 2005. In comparison, Texas and Wisconsin (two states with aggressive loss control programs) experienced costs of $308 and $182 per employee, respectively. Georgia handled approximately 7.9 workers' compensation claims per 100 full-time equivalent employees (FTE) in fiscal year 2005, and 7.3 in fiscal year 2006. According to U.S. Department of Labor statistics, the national average for all workers was 4.4 claims per 100 FTE in calendar year 2005; rates for state workers were 3.3 in Oregon and 2.3 in Arizona. In fiscal year 2005, Texas reported 4.21 claims per 100 full-time state employees; Wisconsin reported 4.88 claims per 100 full-time state employees.

The loss control model that seems to be most frequently and successfully applied in other states is a decentralized system in which responsibility for minimizing insurance costs is largely at the agency level or below. In these systems, the state-level risk management office provides specified levels of support, monitoring and enforcement. Currently, RMS has no real authority for implementing loss control efforts and state agencies have no responsibility for managing their insurance costs.

To implement an effective loss control program, the General Assembly should consider taking steps to give RMS the authority to manage the state's loss control efforts and consider holding agencies accountable for the cost and frequency of their

[2] It should be noted that a portion of the claims paid may have originated in prior years.

insurance claims. In addition, RMS should develop a comprehensive approach for implementing loss control efforts and improving its premium billing process. These issues are discussed in greater detail in the following recommendations.

In its written response to the draft of this report, RMS agreed with this recommendation, and noted that "in addition to significant savings in claims costs, a loss control program would increase safety for state workers." RMS also noted it is developing a comprehensive loss control plan.

Risk Management Services can improve its effectiveness if its responsibilities are clearly defined and if it is given the authority and resources needed to manage a loss control program at the state level.

As "Georgia's insurance agency", it is reasonable to expect that RMS should be responsible for ensuring that effective loss control efforts are in place, just as insurers in the private sector provide risk management and loss monitoring functions. While there is general agreement that RMS is the appropriate agency for this responsibility, there is no existing law or regulation that designates RMS (or any other state entity) as being responsible for managing the state's insurance costs. As a result, RMS lacks the authority to ensure that state agencies employ known methods to reduce insurance costs. In addition, RMS does not have sufficient resources to effectively manage a loss control program. As discussed below, our review indicates that its efforts would be more effective if Risk Management Services' responsibilities were defined and if it was provided with the appropriate authority and adequate resources to implement and manage a loss control system for the state.

Establish RMS Responsibilities for Loss Control

Most states[3] have established risk management responsibilities by law, but Georgia has not created the existence or defined the function of the Risk Management Services Division in statute. State law only establishes the various insurance funds and requires that DOAS manage them. As a result, risk management and loss control efforts have had limited support in the past. Clearly defining the role of RMS within state government would help to communicate the importance of managing insurance costs.

Generally, risk management offices in other states are responsible for coordinating loss control efforts, maintaining and monitoring centralized claims information and statistics, and acting as an expert source of information on loss control techniques. For example, Washington state law requires its Risk Management Division to make recommendations to agencies on the "application of safety, security, loss prevention, and loss minimization methods so as to reduce or avoid risk or loss." The Division also provides loss prevention assistance to small agencies, and analyzes major claim causes. The State Office of Risk Management in Texas supports agency loss control efforts by conducting evaluations of safety programs, developing model risk management procedures for small agencies, and providing a reference library on risk assessment and loss control techniques.

[3] This information is the result of a 48-state survey of state risk management offices performed by a professional organization (www.strima.org); 39 of 44 states responding to this question noted statutory establishment of their risk management office.

Provide Enforcement Authority

Because it lacks a legal mandate, RMS has no authority to require agency participation in its loss control efforts. At best, staff can only recommend techniques that agencies can use to control losses. Without enforcement authority, however, RMS cannot ensure that proven cost-saving techniques are adopted, which may result in higher claims costs. For example, the workers' compensation "Return to Work" program, which has been proven to reduce both lost workdays and claims payments, relies on the voluntary participation of state agencies. A 2000 report by KPMG noted that improving agency participation in Georgia's Return to Work program could have a significant effect on the state's insurance losses. According to data presented in the report, participating agencies reduced their claims cost by 33% and lost work days by 56% in the first year, while a sample of non-participating agencies experienced increases in both. Despite its proven effectiveness, RMS staff reports that only "one or two" agencies currently participate in the program.

Risk management offices in other states have been provided with varying degrees of authority. For example, Wisconsin and Louisiana risk management offices have been given rule-making authority, allowing them to establish minimum standards, policies, and procedures for their states' driver safety programs. Wisconsin's office can levy fines and penalties against agencies that do not report workers' compensation claims within established timeframes. Louisiana's Office of Risk Management has the authority to conduct annual loss prevention audits at state agencies, and can credit or charge the agency 5% of its annual insurance premium based on the results. The Texas State Office of Risk Management is authorized to develop detailed guidance for the development of agency risk management programs.

Provide Adequate Resources

To provide the services required to fulfill its responsibilities, RMS also needs sufficient resources dedicated to loss control. Currently, there is no dedicated loss control staffing or specific loss control funding within RMS. However, ten years ago there were four full-time RMS employees charged with loss control duties. KPMG criticized the loss of this staff in its 2000 review, and recommended hiring four new loss control specialists at a cost of about $260,000. In addition, the Commission for a New Georgia recommended in a 2007 report that the state hire a "high level, experienced, management oriented, loss control professional" to direct the state's loss control efforts.

Other states have provided for loss control resources within their risk management offices. For example, Louisiana's Office of Risk Management has at least 14 staff members in loss prevention, manning branch offices in 5 locations throughout the state. Texas has 10 employees in risk management and loss prevention, and 6 more responsible for "agency outreach and training." Even Montana, (which has one state employee per seven of Georgia's) has two risk management staff members dedicated for loss control. It should be noted that other states have also provided their risk management offices with funds allocated specifically for loss control and prevention. Generally, the states use these funds for state-wide services that benefit all agencies (such as defensive driving courses) or for awarding grants to agencies to assist in the development of loss control programs.

The General Assembly should consider defining the loss control responsibilities of the Risk Management Services Division and providing the Division with sufficient authority to manage a state-wide loss control program. RMS management should identify its current loss control resource needs and project future needs for staffing. Requests of the General Assembly for additional staff should be justified using "Return on Investment" (ROI) analysis techniques since the anticipated savings resulting from increased loss control efforts would be expected to exceed the cost of additional staff needed to implement the increased efforts. Other loss control methods facilitated by state-level authority are listed in **Appendix A** at the end of this report.

RMS agreed with this recommendation and noted that it is planning to hire a loss control program director that will direct the effort to identify RMS loss control resource needs and project future staffing needs.

State agencies should be held formally accountable for taking steps to reduce their insurance losses.

Our review of other states indicates that the most effective loss control activities take place at the agency level (or lower); however, Georgia's state agencies (and programs within agencies) are not held accountable for the dollar amount of their insurance losses. Agencies are not required to address insurance losses as part of the budget process and are not required to implement loss control procedures or have loss control coordinators or other personnel responsible for reducing insurance losses. These issues are discussed below.

- *Information regarding agencies' insurance losses is not provided to the General Assembly in conjunction with their budget deliberations.* Similarly, unless there is an increase in agencies' premiums, the amount of the insurance premiums charged each agency by DOAS is not separately identified in agencies' budgets (depending on the type of insurance, they are included in Personal Services expenses or Regular Operating expenses). Our interviews with OPB personnel indicated that even when premium increases are separately identified in the budget documents, they tend to be viewed as across-the-board increases and not subject to discussion regarding the underlying causes of the need for the increased premiums (i.e., the agency's loss experience). Our review found that a number of states require that annual loss control reports be provided to their legislative bodies. These reports, which may be created either by the agencies or by the state's risk management office, generally include comparative claims information as well as descriptions of loss control activities. In some states, agencies with significant losses are required to report publicly to their legislature during the budget process. For example, in Texas, if an agency is charged a surcharge because of excessive workers' compensation claims, its leaders must request a special appropriation for these funds, or pay the surcharge from operating funds.

- *There is no law or regulation that requires agencies to implement formal loss control programs or to have loss control personnel.* Similarly, there is no requirement for agencies to provide RMS with any information regarding the actions they have taken to reduce their insurance claims. As a result, there is no assurance that agencies have the personnel and resources necessary to implement the kind of actions that could be taken to reduce their insurance claims. Our review found that other states have specifically identified the types of agency loss control activities that should be provided. For example, Arizona law requires that each agency head appoint a management-level Loss Prevention Coordinator to develop and coordinate an agency-specific loss prevention program. In smaller agencies, these duties are assigned to an existing position. In larger agencies, they may be full-time responsibilities.

The General Assembly should consider taking steps to hold state agencies accountable for their insurance losses. The Risk Management Services Division should be required to submit detailed information regarding each agency's losses as well as comparative statistics for identifying those agencies whose losses exceed the state's average. Consideration should also be given to ensuring that adequate resources have been provided at the agency level to implement loss control efforts and monitor agency performance related to loss control activities. **Appendix B** contains additional examples of techniques used to hold agencies accountable for loss control.

RMS agreed with this recommendation. It reported that it was taking steps to make the Office of Planning and Budget aware of agency losses due to maintenance problems, so that OPB can consider those issues when developing the capital improvements portion of the Governor's Budget.

Risk Management Services should develop a comprehensive approach for managing the state's loss control efforts.

While recent RMS actions indicate management's acknowledgement of the need for increased loss control efforts, we found no overall strategy for implementing a truly comprehensive and effective loss control program. Current RMS loss control efforts are "scatter-shot", representing actions taken by managers of the individual insurance funds rather than strategic efforts based on the state's areas of greatest risk. Without a more strategic approach to loss control, the state has no assurance that the most costly, most common, or most preventable claims will be reduced.

A comprehensive loss control approach would require both general education and intervention efforts for all state employees, along with specialized programs targeted to agencies or employee groups with specific risks or excessive losses. As discussed below, RMS can act now to develop a plan for standard programs and services for state-wide use but targeted efforts will require improvement in how claims are documented.

Establish and Build on Basic Loss Control Programs

The state should be able to achieve a certain level of savings on insurance claims by increasing all employees' awareness of the risks involved in their day-to-day activities, then providing them with tools to reduce those risks. Two very common but preventable sources of claims are those resulting from workplace injuries and from motor vehicle accidents. RMS should develop a strategy for creating comprehensive workplace safety and driver safety programs that are available to all state employees. The complexity and comprehensiveness of these programs would be expected to increase as more resources are dedicated to loss control at the state and agency level. For example, a driver safety program may start with dissemination of safety tips and reminders to all employees, but later include publication of a drivers' safety manual, establishment of minimum qualifications for drivers of state vehicles, and/or purchase of defensive driver training through a state-wide contract. The strategy should include a mechanism to evaluate both the effectiveness of specific efforts and how broadly they reach employees in agencies across the state.

Improve Claims Data to Identify Patterns of Loss

Beyond these basic loss control programs, targeting additional efforts to entities responsible for excessive claims will require complicated analyses of well-documented data. Ideally, for any level of state government, RMS should be able to identify the frequency or cost of claims in context and by cause. (For example, be able to compare between agencies the number of workers' compensation claims per employee caused by tripping or falling.) However, current claims documentation processes do not adequately enable RMS to identify problems, analyze their magnitude and source, or compare results among agencies. As a result, RMS data cannot currently be used either to identify the baseline frequency of a problem, or to document improvements that should be measurable after a loss control intervention. A review of claims data from incidents occurring between January 2002 and December 2006 revealed the following problems:

- *The causes of incidents resulting in losses have not been adequately documented.* "Cause codes[4]" for insurance claims are not always recorded, or generic codes are used instead of more specific codes. For example, over the five years from 2002-2006, approximately 18% (550 of 3,091) of property claims were not coded to identify the cause of loss. In calendar year 2005 alone, 57% (351) of 614 claims were not coded to identify the cause of loss. In another example, the cause of auto liability claims was documented using a generic "default" code ("Unclass/Misc." or "Other Auto Loss") 18% of the time (1,387 of 7,773 claims) in the same period. Review of these claims indicated that most could have been categorized into existing, more descriptive, loss codes.

- *The entity making the claim has not been adequately identified.* The office or program within an agency reporting the claim must be identified so loss control efforts can be focused on those entities with the most expensive or most frequent losses. For example, workers' compensation claims from the Department of Juvenile Justice (DJJ) should identify the specific detention facility at which an incident occurred. However, of the 3,902 agency claims for 2002-2006, 42% (1,649) were simply recorded as occurring at "DJJ" without further designation, even though most appeared to be facility-related incidents rather than events occurring at the DJJ Central Office or other locations. As a result, RMS could miss possible patterns of loss occurring at specific DJJ facilities.

  Comparisons between facilities or other subgroups are also not possible because RMS cannot identify the number of full-time equivalent employees at each entity for which it documents claims. For example, 10,289

[4] The RMS claims management system allows staff to enter a code from a pre-defined list to document the cause of loss. This mechanism allows for loss analysis of claims data. For example, a workers' compensation claim may be coded "Slip/Trip/Fall" or "Cut/Puncture" to describe the incident that resulted in a claim.

Department of Human Resources (DHR) workers' compensation claims for 2002-2006 were recorded for 52 different entities, including individual health care facilities, Public Health Districts, and DFCS regions. However, RMS statistics on the number of employees working at DHR are only documented at the agency level. Therefore, comparable measures of loss such as "claims cost per employee" are not available to evaluate the loss experience of the various entities within DHR, or compare among entities within other state agencies.

To reduce losses from insurance claims, Georgia can attempt any of dozens of loss control approaches used in other states or in private industry. (**Appendix C** lists techniques used in other states, as well as recommendations made in previous RMS audits.) However, to ensure an effective loss control program, RMS should prioritize its efforts based on evaluation of risk vs. reward, while considering available resources. Strategies should be developed from a state-wide perspective rather than be limited to a particular insurance product. In addition, accurate and adequately detailed claims information is critical if agencies are to be held accountable for the frequency and cost of insurance claims. RMS management should review its claims system and its data entry processes to facilitate the collection and documentation of causes of loss and related information. Because loss control activities are so dependent on reviews of historical data, RMS should also consider what improvements and corrections need to be made to prior year claims data to ensure its accuracy and reliability.

RMS agreed with this recommendation and noted that it had begun loss control efforts in 2006 with no specific authority or resources. It identified three loss control issues to begin addressing prior to the completion of a comprehensive plan: a three-year plan for building inspections was implemented; an RFP was let to obtain a third-party workers' compensation administrator with significant loss control experience; and legal costs and auto accidents involving hitting a fixed object were identified as opportunities for quick results. It also noted that hiring a chief safety officer was the beginning of a strategy for creating comprehensive workplace safety and driver safety programs.

RMS also indicated that it would take action by July 1, 2007 to improve fiscal year 2008 claims data to better identify patterns of loss. It noted that it would take steps to better identify the entity filing the claim and the location of the incident.

The Department of Administrative Services needs to improve the billing process used to charge insurance premiums to agencies.

Like many states, Georgia has developed a process to allocate its insurance costs to individual agencies based on the payment of insurance premiums, rather than appropriating funds for claims losses and expenses directly to a central account. Although charging agencies premiums makes the budgeting process more complicated, the benefit is in communicating to agencies the link between their claims histories and the state's insurance costs. If, as with private insurance, the cost of these premiums is dependent on an agency's claims history, premium charges may act as an incentive to reduce claims in the future. However, for the reasons discussed below, Georgia's current billing process does not encourage loss control efforts.

- *Formulas used for calculating rates do not emphasize an agency's claims history.* For example, the rate calculation for property insurance includes an *exposure* component (value of property covered) but does not include an *experience* component (number or cost of claims) to encourage agencies to take action to reduce claims costs. Therefore, nothing in the property premium encourages loss control. The rate calculation formula for liability and workers' compensation premiums include experience factors; however, the formula weights loss experience and loss exposure equally, making the formula less sensitive to the cost of claims than if claims were weighted more heavily. As a result, agencies have little incentive to undertake loss control efforts. It should be noted that RMS previously included a greater emphasis on experience in its formula; in our 1988 performance audit, we noted that 80% of an agency's workers' compensation premium was based on its loss history for three years.

- *Factors affecting insurance charges are not adequately communicated.* Currently, agency management sees only lump sum invoices for insurance premium payments. No context is provided to show how the agency's rates compare to a state average, or how the agency's claims history has influenced its charges over time. Similarly, information on liability claims is maintained for several categories (tort claims, general liability, auto liability, crime insurance, etc.); however, premiums for liability insurance are invoiced for all types of liability coverage combined. As a result, managers cannot see the impact of specific types of claims (such as the effect automobile accidents have on auto liability rates) since all types of liability claims are combined in the rate calculation. Such communication problems are not new. In a performance audit published in 1988, we recommended that "steps should be taken to make state agencies and institutions more aware of the effect their employees' accidents have on the premiums they are charged for workers' compensation coverage." This report also recommended that invoices should "indicate what percentage of the premium (if any) is a result of the agency experiencing losses that exceeded the state-wide average."

- *Recent premiums have not reflected actual claims costs.* Worker's compensation premiums have not reflected claims costs since fiscal year 2003. Agencies were not billed premiums for fiscal years 2004-2005, and billed significantly reduced amounts (just over 15% of costs) for 2006 and 2007. In addition, liability premiums have not been charged since fiscal year 2002 because the Fund balance had grown larger than actuarial requirements. Instead of insurance costs being passed through agency budgets, claims for workers' compensation and liability were paid from Fund balances. Regardless of the reasons for these budgeting decisions, the effect is that agency executives have been given no information on their true insurance costs for the state's two most expensive lines of coverage for the past several years.

DOAS should take steps to address the problems identified above when billing formulas are revised for fiscal year 2009. It should be noted that because funding to cover insurance premiums is "passed through" to each agency as part of the budget appropriation process, billing agencies for premiums probably has only limited usefulness as a loss control incentive, even with these suggested changes. However, as shown in **Appendix D**, other states have built on their premium billing process to create additional incentives (in the form of discounts or surcharges to premiums) based on agency loss control efforts. Therefore, an improved billing process may lay the groundwork for additional loss control initiatives in the future.

RMS agreed with most of this recommendation. It noted that it was working with OPB to modify its rate calculation models and would review the need for better communicating the factors affecting the cost of insurance premiums on agency invoices. However, RMS also noted that premiums provide less incentive for claims reduction in the public sector than in private insurance when government agencies are allocated 100% of the funds needed to pay premiums. RMS asserted that increasing agency deductibles is a more direct and timely method of encouraging agencies to reduce property claims.

These Appendices are lists of loss control techniques we identified while reviewing other states' risk management web sites, as well as recommendations from previous reviews of Georgia's Risk Management Services Division. The strategies have been organized to reflect some of the larger issues discussed in the report, but the categories are fairly arbitrary. It should be noted that some techniques may fit more than one category.

Appendix A
State-Level Authority for Loss Control

Technique	Source
The Division of Risk Management reduces automobile liability rates for covered state employees who drive their own vehicles on state business. The reduced rate is offered only if the driver maintains private insurance or self-insurance in compliance with the State's auto liability coverage limits.	Alabama
The Division of Risk Management provides grants to state agencies that mitigate claims through the establishment of a loss prevention program.	Arizona
The Division of Risk Management emails "target referrals" to Safety Coordinators citing unsafe conditions, policies, procedures, or situations that could lead to future losses within the agency. Safety Coordinators must respond in a timely manner regarding corrective measures that will be taken to remedy the unsafe practices.	Florida
All employees operating state vehicles must attend a driving course within three months of entering the agency's Driver Safety program. Employees must also attend a refresher course at least once every three years unless they require additional training.	Louisiana
The Loss Prevention Unit conducts appraisals of over approximately 9,000 state owned and some non-state owned buildings over a four-year period.	Louisiana
Risk Management can assess a $25.00 surcharge for each calendar day an agency fails to provide Return-To-Work duties for an employee.	North Dakota
The Division of Risk Management conducts loss prevention audits to assess state facilities for adequate resources to mitigate risk and evaluate current loss prevention programs in place.	North Dakota
State entities submit annual reports to the Office of Risk Management regarding claims and loss data. Data is maintained to facilitate the identification of relative loss trends and to produce statewide reports.	Texas
The Office of Risk Management must report any agencies that fail to comply with its guidelines to the General Assembly.	Texas
The State Office of Risk Management reports property losses of each agency within its biennial report.	Texas
The Risk Management Division conducts a loss prevention review at any agency filing a claim involving a death, serious injury, or significant loss when the state is suspected of fault. The reviews evaluate loss prevention systems and policies in place at the time of the incident.	Washington

Appendix B
Agency Accountability for Loss Control

Technique	Source
In Georgia, agency heads should be required to provide a written response to the Division of Risk Management Services' recommendations regarding loss prevention.	2000 KPMG Report
In Georgia, state agencies should have an incentive plan to encourage employee compliance with safety rules and procedures. Incentives could include disciplinary action if losses are incurred due to violation of established safety rules.	2000 KPMG Report
State agencies reimburse Risk Management for the first 10 weeks of an employee's workers' compensation payments. This encourages agencies to effectively manage the amount of lost work time once an employee files a claim.	Florida
The Interagency Advisory Council on Loss Prevention produces an annual report for the Governor discussing the loss prevention activities and achievements of every state agency.	Florida
Each agency must implement a Driver Safety program that mandates who is allowed to drive state vehicles under the agency's control. Policies must highlight the roles and responsibilities of agency managers, supervisors, and employees within the program.	Louisiana
Each state agency designates a risk management contact who is responsible for working with the Risk Management Division to implement a loss control program within the agency.	North Dakota
Agencies prepare annual Risk Reports through an automated system that allows agencies to update exposures and property values. Information provided from this system helps to identify potential exposures, evaluate the larger scope of an agency's assets, and develop loss control plans to address potential risk.	Oregon
Every agency must implement a safety system to minimize the risk of workplace illness and injury.	Oregon
State agencies with personal property valued over $1,000,000 at one location must evaluate potential loss exposures, identify mitigating loss strategies, and prepare a written loss control plan.	Oregon
State agencies are required to conduct fire/life safety inspections and report any potentially hazardous conditions to Risk Management, along with a self-corrective plan.	Tennessee
Agencies must conduct an annual evaluation on cases where injured employees were unable to return to work on a transitional or permanent basis.	Virginia
Each state agency is required to submit an annual report documenting the purpose and objectives of its loss control program to mitigate work-related illnesses and injury claims.	Virginia
Each agency is responsible for reviewing and acting upon a monthly list of employees who no longer meet the state's minimum driving standards.	Wisconsin

Appendix C
Loss Control Planning and Data Management

Technique	Source
In Georgia, more comprehensive statistical data should be maintained regarding claims resulting from automobile accidents in which state employees are at fault.	1988 Performance Audit
In Georgia, all employees driving state vehicles should be required to have Defensive Driver Training with intermittent refresher courses.	2000 KPMG Report
In Georgia, claims information should be readily available to state entities, targeted to key staff associated with risk management, safety, and human resources.	2000 KPMG Report
In Georgia, Motor Vehicle Records should be obtained on all new state employees who will drive state vehicles. Written guidelines should be made available to assess driving records.	2000 KPMG Report
The Division of Risk Management offers Pursuit Driver Training Courses for covered state law enforcement personnel.	Alabama
The Division of Risk Management prioritizes the needs and allocation of loss prevention services using three factors: perception of need by each agency, urgency of need based on risk to life and property, and availability of resources.	Alabama
The Risk Management Division presents a "Program of the Year" Safety Award to any agency that has created a safety program reducing the number of workers' compensation claims in real numbers over a three-year period.	Florida
The Office of Risk Management developed a computer-based Defensive Driver Training course allowing state employees to complete training at their agencies.	Louisiana
State entities are provided with monthly reports of their claims, lawsuits, and incidents to track loss exposures and incurred losses.	North Dakota
The Division of Risk Management provides web access to the Accumulative Loss Analysis report which compares the frequency and total cost of workers' compensation claims within a loss category over a five-year period. An agency can print the report for all state entities or only its department.	Tennessee
The Office of Risk Management is developing a training system which will allow agencies to request online training and will recommend customized training based on an agency's unique loss exposures.	Texas
The Office of Risk Management facilitates a testing center for state employees seeking certification in workers' compensation as a part of its safety training and outreach efforts.	Texas
State agencies must coordinate with each other to plan and implement return-to-work opportunities appropriate for the agencies and the employee.	Virginia
The Bureau of Risk Management produces a yearly Benchmarking Report publicizing state agency comparative risk management data. State agencies can use this report as a tool to evaluate the effectiveness of their safety programs in comparison to other state entities.	Wisconsin

Appendix D
Premiums and Related Incentives

Technique	Source
Georgia state agencies not participating in the Return-To-Work program should have a surcharge added to their workers' compensation premium.	2000 KPMG Report
The Division of Risk Management offers premium credits for properties that are 100% protected by sprinkler systems. To receive the credit, agencies must ensure the automated sprinkler system is properly installed throughout the building and under contract to be inspected and certified each year. This information must also be reported to the Division of Risk Management.	Alabama
20% of an agency's Casualty insurance premium is based on the number of covered employees while the remaining 80% is determined by prior loss history.	Florida
Agency property deductibles were raised from $500 to $2500 and the number of new property claims diminished.	Florida
In FY 05-06, the Division of Risk Management calculated agency property premiums using two factors. Loss experience accounted for 5% while loss exposure accounted for the remaining 95% of the premium.	Florida
The Office of Risk Management considers an agency's implementation of a comprehensive safety and loss prevention plan as a factor when determining premium costs.	Louisiana
State agencies with an effective property loss management program, as evaluated by the Division of Risk Management and Tort Defense, are eligible to receive a 10% reduction in property premiums.	Montana
An agency can earn a 5% discount on its auto premiums if it requires just 3% of its employees to participate in a defensive driving course	Montana
The Risk Management and Tort Defense Division offers state agencies the opportunity for an auto premium reduction of up to 20% if they opt to pay a higher deductible than the standard $250.	Montana
Every agency with over 25 employees must participate in the workers' compensation Premium Discount Program. The Program offers cumulative discounts up to 17% off premiums for documenting the establishment of various stages of a loss control program.	North Dakota
The Department of Administrative Services conducts two-hour training sessions for key agency staff to learn the basis of the State's premium allocation plan and how to calculate their own agency's premium rates.	Oregon

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